US-China conflict in global trade governance

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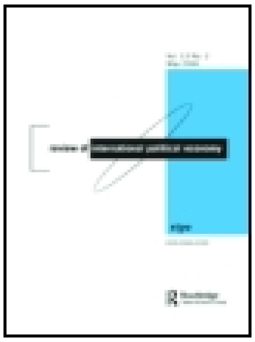

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US-China conflict in global trade governance: the new politics of agricultural subsidies at the WTO

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ABSTRACT
This article shows how China's rise has radically altered the politics of one of the most prominent and controversial issues in the global trading system: agriculture subsidies. Agriculture subsidies depress global prices and undermine the competitiveness and livelihoods of poor farmers, and therefore have been long seen as a symbol of the injustice of the trading system. The issue has traditionally been understood in North-South terms, with developed countries seen as the perpetrators of harm and developing countries as innocent victims. In this article, however, I challenge this prevailing conception of the agricultural subsidies issue, arguing that it is now out of date and no longer corresponds with the emerging reality. A momentous but underappreciated change has taken place, largely beneath the radar of IPE scholarship: China has emerged as the world's largest subsidizer, profoundly transforming the global politics of agricultural subsidies. From a North-South battle, WTO negotiations on agricultural subsidies are now primarily centered on a conflict between the US and China. While reducing subsidies remains a pressing concern for developing countries, efforts to negotiate new and strengthened disciplines at the WTO have been thwarted by an impasse between the two dominant powers.

KEYWORDS China; US; agricultural subsidies; World Trade Organization (WTO); trade; global economic governance; trade negotiations

The US has long been the dominant state in the global economy and its governance. Yet, after four decades of rapid and sustained economic growth, China has now emerged as the world's leading trading state and second largest economy. Understanding the implications of a rising China has become a central preoccupation of scholars and policymakers alike. Fueled by its growing economic might, China is demanding a greater role in global economic governance. The US and China are competing not only for economic primacy but also for power in the institutions that set the rules of the global economy (Quark, 2013). A key question is how China's rise will affect the existing system of global economic governance constructed under American hegemony (Gray & Murphy, 2015; Lesage & Van de Graaf, 2015). This article contributes to our understanding of the implications of China's rise by analyzing its impact on one of the most high-profile and contentious issues in the multilateral trading system: agricultural subsidies.

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The case of agricultural subsidies provides a striking illustration of how China's rise is transforming the dynamics of contestation in global trade governance. Agricultural subsidies have long been seen as a symbol of the hypocrisy of the US and other rich countries and the injustice of the trading system (Bukovansky, 2010; Singh, 2017). Subsidies provided by rich countries distort global markets and depress prices, undermining the competitiveness and incomes of poor farmers in the developing world. There is widespread consensus that reducing agricultural subsidies would increase the welfare of developing countries and the world's poorest and most vulnerable agricultural producers. Agricultural subsidies emerged as a central issue in the WTO Doha Round of trade negotiations, where reducing rich country subsidies became the key unifying demand of developing countries and helped to transform the WTO into a North-South battleground (Clapp, 2006). The primary axis of conflict in WTO negotiations on agricultural subsidies has thus been understood as lying between North and South: developed countries have been seen as the perpetrators of harm and developing countries as innocent victims.

In this article, however, I argue that this conventional understanding of the international politics of agricultural subsidies is no longer accurate. In recent years, China has emerged as the world's largest subsidizer of agriculture, with substantial implications for global markets and trade. China's emergence as a major subsidizer, I contend, upends the entrenched conception of agricultural subsidies as a harm perpetrated by the Global North upon the Global South. Moreover, as I show, agricultural subsidies are once again at the center of the agenda at the WTO: since the collapse of the Doha Round, states have identified this as a priority area of negotiations, seeking to achieve a standalone agreement to reduce global agricultural subsidies. The axis of conflict, however, has shifted profoundly. Rather than a battle drawn firmly on North-South lines, the conflict over agricultural subsidies is now centered primarily on the US and China. While reducing subsidies remains a pressing concern for developing countries, conflict between the US and China has produced an impasse, blocking new disciplines on agricultural subsidies at the WTO. China – along with the US – is now the principal barrier to establishing stricter global trade rules on agricultural subsidies.

The article is organized as follows. The next section details the 'old' politics of agricultural subsidies at the WTO, characterized as a battle between the Global North and South during the Doha Round. The following section then charts how China's rise is transforming the global landscape of agricultural subsidies. Subsequent sections examine the resulting 'new' politics of agricultural subsidies at the WTO, since the Doha collapse. The first analyzes the positions of the two dominant players in the new conflict over agriculture subsidies, the US and China. The second explains why a clash between these two powers has produced an impasse in the post-Doha negotiations on agricultural subsidies. The third demonstrates how, although global subsidy disciplines remain a crucial priority for developing countries, their interests have been sidelined amid the conflict between the system's two dominant powers. The concluding section presents cotton as an illustrative example to underscore how WTO agricultural subsidy negotiations have come to be dominated by US-China conflict, with significant implications for developing countries in particular. This analysis draws from a larger project examining shifting power at the WTO, involving field research conducted between 2007 and 2018, at the WTO in Geneva, as well as in Beijing, Washington, New Delhi, Sao Paulo, and Brasilia, including over 200 interviews with WTO negotiators, senior officials, and representatives of industry and non-governmental organizations (NGOs); over 300 hours of ethnographic observation; and extensive documentary analysis.

Traditional understanding of agricultural subsidies at the WTO

A multitude of actors – including developing countries, NGOs, the World Bank, IMF, UN, and the international media – have denounced the subsidies provided by the US and other rich countries, decrying their impact on the welfare of poor countries (Bukovansky, 2010). Arguably no other issue in the multilateral trading system has generated as much public attention and outrage around the world. As Matthew Eagleton-Pierce (2012: 85) argues, agricultural subsidies have 'served as a touchstone for deeper concerns about economic and political justice within North-South relations'.

Agricultural subsidies and other forms of protection are widely seen as tools that have been used to 'tilt the global trade field in favor of developed nations' (Singh, 2014). Identifying the US and EU as the worst offenders, Oxfam (2002: 96, 112) argues that their agricultural subsidies 'have devastating effects on poor farmers in developing countries', who are 'losing global markets and facing ruinous competition from subsidized exports'. As Oxfam notes, 'these subsidies have a major bearing on the structure of competition in international markets', such that 'farmers in the poorest nations' are forced to compete 'against the financial power of the world's richest countries'. Focusing on cotton, a columnist for the *Financial Times* writes:

> It is no exaggeration to say that the lower prices created by US subsidies almost certainly cost thousands of lives a year as desperately poor people who grow cotton as their main cash crop are unable to pay for food, clean water and healthcare. … [B]etraying millions of the poorest people in the world because of a small cabal of rich, well-organized welfare-scrounging farmers … the US in this matter has proven to be a selfish, craven malefactor. (Beattie, 2014)

The prevailing understanding of agricultural subsidies thus identifies rich countries as the clear 'villains' (Oxfam, 2005: 19) and developing countries as their victims.

For many, agricultural subsidies epitomize the 'rigged rules and double standards' of the trading system, as Oxfam put it – the unfairness of global trade rules and how they are structured against the world's poorest countries. With the majority of the population in the developing world employed in agriculture, agriculture is vital to livelihoods, employment and food security in developing countries (Eagleton-Pierce, 2012). However, while agriculture is one of the most important areas of international trade for many developing countries, free trade has been only partially and unevenly applied to agriculture, which remains one of the least liberalized sectors of global trade (Clapp, 2006). The rules of the trading system have been heavily shaped by power asymmetries: historically dominated by the US, EU and other advanced-industrialized states, liberalization was concentrated in their areas of export competitiveness, while areas of greatest importance to developing countries – such as agriculture – remained heavily protected (Muzaka & Bishop, 2015). Agriculture was only brought into the trading system with the Uruguay Round in 1995, and the gains promised to developing countries failed to materialize:

developed countries continued to provide high levels of subsidies, with harmful consequences for poor farmers throughout the developing world. Since reducing agricultural subsidies is recognized as one of the key ways that global trade rules can help promote international development and alleviate poverty, the issue has been identified as a 'litmus test' of whether the WTO can work for the poor (Hopewell, 2016) and indeed 'a test of the legitimacy of the WTO system as a whole' (Quark, 2013: 129).

During the Doha Round, the emerging powers formed a coalition of developing countries – the Group of 20 (G20), representing over half of the world's population and two-thirds of its farmers, with broad-based support from the rest of the developing world – to counter the US and other advanced-industrialized states and press those countries for agricultural reforms, particularly on subsidies (Clapp, 2006; Narlikar & Wilkinson, 2004). By challenging rich country agriculture subsidies, the G20 – under the leadership of Brazil and India, and backed by China – enabled developing countries to seize the offensive against the US and other advanced-industrialized states and make their protectionist policies a key target at the WTO (Hopewell, 2016; Muzaka & Bishop, 2015). For the first time, the US – historically the key aggressor in the GATT/WTO – found itself increasingly isolated and on the defensive, while developing countries assumed the role of *demandeurs*. In addition, Brazil – with China, India and numerous developing countries as third parties – launched and won landmark WTO disputes against US cotton and EU sugar subsidies. The activism of the emerging powers on agriculture subsidies profoundly altered the dynamics and agenda of the Doha Round and helped to catalyze broader power shifts at the WTO, challenging the unfettered dominance of the US and other advanced-industrialized states (Hopewell, 2016). The Doha Round came to be defined by a conflict between developed and developing countries, focused heavily on agricultural subsidies (Singh, 2017).

As the following analysis will show, however, amid the rise of China, the international politics of agricultural subsidies have changed dramatically, such that they are virtually unrecognizable from just a decade ago. The agricultural subsidies issue was previously conceived in North-South terms, with a clear set of villains (developed countries) and victims (developing countries). If rich countries have been seen as the villains on the agricultural subsidies issue, it is because, as Oxfam (2005: 20) could accurately state until recently: 'WTO figures show that developed countries are almost exclusively responsible for the problems of trade distortion caused by farm subsidies. Agricultural support in developing countries is marginal in comparison'. Today, however, this no longer holds true. China – a developing country – is now the world's largest subsidizer. The contemporary politics of agricultural subsidies cannot be understood by focusing solely on the policies of the US and other developed countries. New fault lines are emerging, which are far more complex than the North-South struggle that characterized the Doha Round.

This article draws attention to a lesser known aspect of China's economic transformation and its changing role in the global political economy. China is primarily seen as a manufacturing powerhouse and rising financial power. But what is often missed amid the focus on the extraordinary growth of its manufacturing sector is that, thanks to a dramatic expansion in agricultural production, China is now the world's largest agricultural producer. Given its large domestic market, most of its agricultural output is consumed internally, but China has still become the world's fourth largest agricultural exporter (WTO, 2017b). Like the US and Europe, China is now *both* a major industrial economy and a leading agricultural producer and exporter. Indeed, China's rise is part of a larger reconfiguration of global agricultural production and trade flows from the traditionally dominant grain-producing nations of the US, EU, Canada and Australia to emerging 'agro-powers' in the Global South (Margulis, 2014). Moreover, China enjoys tremendous power in global agriculture due to the size of its market and its importance as an importer (Quark, 2013). While frequently overlooked, this side of China – its role as a major agricultural power – has significant consequences for global trade politics.

China's agricultural subsidies boom

There has been a profound change in the global landscape of agricultural subsidies and the politics surrounding this issue at the WTO. As China and other emerging economies have grown richer, they have become major subsidizers of agriculture. China has transitioned from taxing its rural sector to providing subsidies in order to support farmers' incomes and incentivize domestic production. This is not unique to China – other emerging economies, such as India, Indonesia, Philippines and Turkey, have similarly increased their agricultural support. Consequently, as one former negotiator summarized, 'the real problem with agricultural subsidies is increasingly in developing countries, not developed countries anymore'.[1]

Over the past two decades, agricultural support in developed countries has fallen steadily, but China's support has risen dramatically. As a result, China surpassed the OECD average in 2013, with its support to producers reaching more than 20% of farm receipts in 2015 (Figure 1). China's total support to agriculture, at 2.4% of GDP, is now four times higher than the OECD average (OECD, 2017). China provided an estimated $212 billion in farm subsidies in 2016, significantly more than the EU ($100 billion), US ($33 billion), or any other country (OECD, 2017).

In China, state support now represents a significant portion of revenue for many commodities: subsidies constitute 38% of gross farm receipts for wheat, 29%

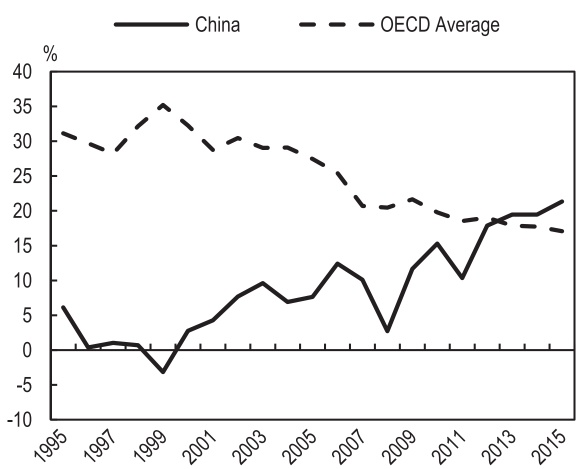

Figure 1. Producer support estimate as % of gross farm receipts, 1995–2015.
Source: OECD.

for corn, 32% for rice, 49% for sugar, and 44% for cotton, far greater than the levels of subsidization provided in the US (Figure 2).

It is not just the volume of support that a country provides that matters but the form in which that support is provided. Certain types of subsidies distort trade far more than others. The most heavily trade-distorting subsidies are those that incentivize increased production (such as price supports or subsidies linked to inputs or output levels), whereas income support payments decoupled from production are among the least trade-distorting. While developed countries have been moving towards less-trade distorting forms of support, China's subsidies are concentrated in the most trade-distorting forms of support. China is now providing more trade-distorting subsidies than the US or EU (OECD, 2017). In China, support to agricultural producers represented 15% of gross farm receipts in 2014–16, with 74% provided via the most trade distorting forms of support (Figure 3). By comparison, support to farmers in the US constituted 9% of gross farm receipts, with 33% provided in the most trade distorting forms of support.

China's support to agriculture is dominated by market price support, direct payments based on production, and input subsidies, which are the most trade-distorting means of providing agricultural assistance. Market price support, through the purchase of commodities by state agencies at a minimum guaranteed price, represents an important pillar of China's agricultural support. Following the 2007–08 Global Food Crisis, which heightened food security concerns (Margulis, 2014), China doubled the value of its agricultural support (Gale, 2013). Between 2008 and 2015, support prices were raised for wheat by 58%, corn by 50% and rice by 80% (USDA, 2015a). China now accounts for more than half of the world's support for rice and more than three-quarters of support for corn (Greenville, 2017).

China's policy of supporting producers through the purchase of agricultural commodities at above-market prices has led to the accumulation of massive state reserves. China has amassed 60% of the world's cotton supplies, over 50% of its corn, 40% of wheat and 21% of soybeans (Rabobank, 2016). To dispose of these large stocks, the government auctions them off below cost, while using various measures to discourage imports. Given the size of its state reserves, China's policies exert 'a colossal influence' on world prices (Rabobank, 2016). China's mass sell-off

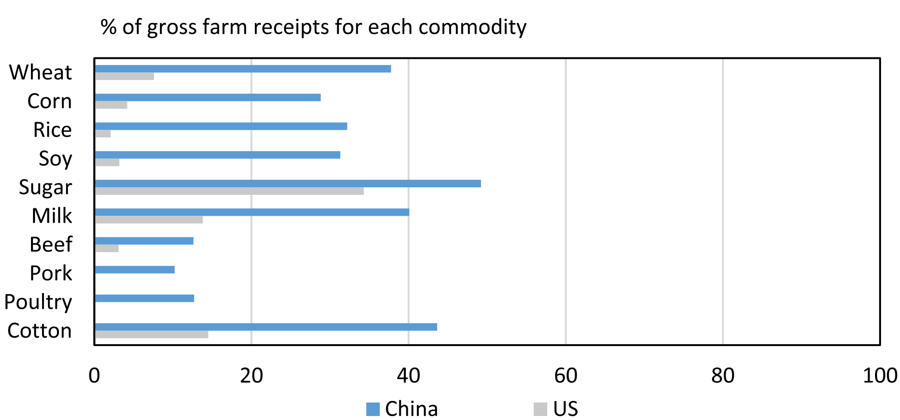

Figure 2. Transfers to specific commodities, 2014–16.
Source: OECD.

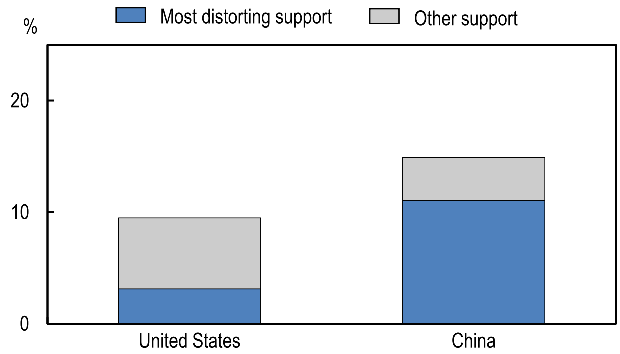

Figure 3. Composition of producer support estimate, 2014–16 (% of gross farm receipts).
Source: OECD.

of sugar from its reserves in 2016, for example, helped to push the global price of sugar down by almost a quarter (Mera, 2017).

The impact of China's policies is magnified by its increasing centrality in global agriculture. China's agricultural production has grown dramatically: its share of global production has more than doubled, from 18% in 1995–97 to 43% in 2014–16 (Figure 4). Since China is now the world's largest producer and consumer of agricultural products, its policies have a profound impact on global markets and trade (Gale, 2013). Although the commodities it subsidizes are primarily sold in the domestic market rather than exported, as one WTO official stated, China 'is just such an enormous import market that its impact on global trade patterns is extremely significant'.[2] China's subsidies artificially boost its agricultural production, resulting in reduced demand for imports and lower global prices, to the detriment of agricultural producers and exporters around the world (Gale, 2013; Mera, 2017; Rabobank, 2016).

From villain to victim? The US position

The US and other advanced-industrialized states, as the world's biggest subsidizers at that time, were the primary targets of subsidy reduction efforts in the Doha Round. But, since the collapse of the Doha Round, prompted by the boom in China's agriculture subsidies, the US has turned the tables and gone on the offensive against China's subsidies in both WTO negotiations and dispute settlement. Of course, the US has defensive motives for targeting China's subsidies: it is happy to deflect attention from its own subsidies and shift the blame elsewhere. But the US also has significant commercial interests at stake: as the world's biggest agricultural exporter, the US has a major interest in securing a reduction in Chinese subsidies. Moreover, the issue is also linked to broader issues of economic competition and geopolitical rivalry between the US and China.

Ironically, the US – long seen as the villain in this area – has increasingly come to view itself as a victim of China's agricultural subsidies. The level of support the US provides to its agricultural producers has been consistently below the OECD average and falling over time (OECD, 2017). Since the Uruguay Round, and the Brazil cotton dispute, the US has reformed its own farm programs, shifting towards less trade-distorting forms of support. The US's producer support declined from

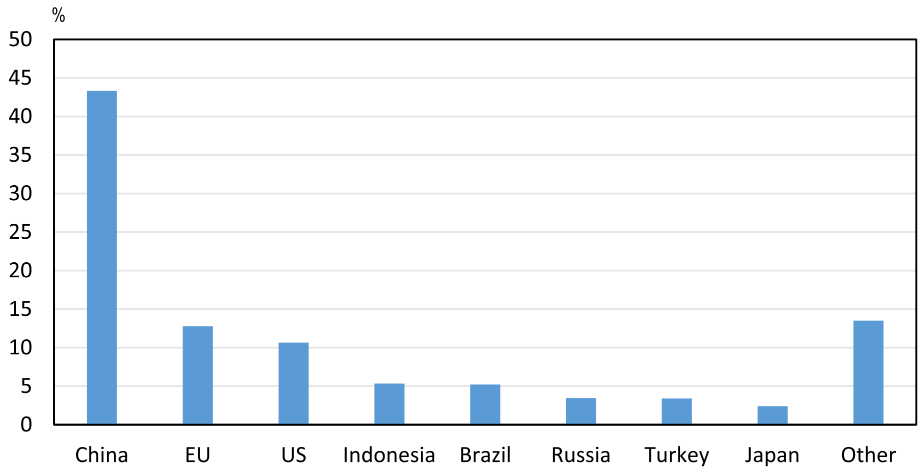

Figure 4. Country shares in total agricultural value added, 2014–16.
Source: OECD.

21% of gross farm receipts in 1986–88 to 9% in 2014–16, with the proportion provided in the most trade-distorting forms of support falling from 51% to 33% (OECD, 2017). Yet now, the US finds its chief market and competitor, China, moving in the opposite direction. Today, as one negotiator stated, China is 'comprehensively outspending them in a way the US can't respond to because of its fiscal limitations and its WTO limits on production-linked spending'.[3] From the US's perspective, to quote one of its former negotiators, not only are China's subsidies 'distorting world markets but they have become significantly more trade-distorting than subsidies in developed countries' and 'the US, as the biggest agricultural exporter, suffers most from these distortions'.[4]

Agriculture is important to the US economy as a major source of exports. Accounting for 10% of total exports, agriculture is one of the few sectors of the US economy that runs a trade surplus, helping to reduce the size of the nation's overall trade deficit (USDA, 2015c). American agriculture depends heavily on foreign markets, with more than a third of farm revenues generated from exports (USDA, 2015c). For some commodities, such as wheat, rice and cotton, export markets absorb half or more of US output (CRS, 2017). While the US remains the world's leading agricultural exporter, its dominance has been substantially eroded. Its share of global grain exports has fallen from 65% in the mid-1970s to 30% today (Newman & McGroarty, 2017). The US agriculture industry identifies two key factors behind its declining market share: the rise of new competitors and the use of protectionist trade policies by other states.[5] According to the House Agriculture Committee Chair: 'One of the biggest impacts to the health of the US agriculture industry is competition from foreign governments – in particular foreign subsidies and tariffs'.[6]

As the largest market for US exports, China is a key focus. US agricultural exports to China peaked in 2012 at $26 billion, but in subsequent years fell by over 25% (USDA, 2016a). This precipitous decline was caused primarily by China's subsidies and bulging reserves. The US believes its exports would be considerably higher if not for Chinese subsidies and trade barriers: 'we could be doing much better if our exports could compete in China on a level playing field' (US, 2016b). The US wheat industry, for instance, maintains that China's subsidies cost world wheat exporters $3 billion in lost revenue annually, with American farmers specifically losing over $650 million.[7] It estimates that removal of China's price support program for wheat would boost the country's imports by nearly 10 million metric tons and raise world prices by 3%; US exports alone would rise by 6% or 1.5 million tons (Inside US-China Trade, 2016a). In addition to distortions caused by subsidies, significant tariff and non-tariff barriers also restrict access to the Chinese market. The US Chamber of Commerce (2016) estimates that US agricultural exports could increase by $12 billion if China's agricultural trade barriers were eliminated.

The US launched two disputes in 2016 challenging China's subsidies and administration of its tariff rate quotas (TRQs) for grains (wheat, rice and corn). Washington alleges that the subsidies China is providing via its price support programs exceed its WTO commitments by nearly $100 billion. While the case only challenges China's market price support for grains, US producers maintain that other subsidies – including direct payments and input subsidies – would increase China's violation of its WTO obligations even further, and they allege similar dynamics are present in other commodities (Inside US-China Trade, 2016c). The US also alleges that China has been restricting its TRQs – which require quantities of a product imported within a quota to be charged a lower tariff – to block imports. In the case of wheat, for instance, China's WTO commitments require it to implement an annual 9.64 million metric ton TRQ. Since world prices are lower than Chinese prices, China should be importing large quantities of wheat, putting its TRQ utilization at or near 100%. But, instead, China has repeatedly filled only about one-third of its TRQ, allegedly because 90% is administered by state-owned enterprises, which have been ordered by the government not to import wheat (Inside US-China Trade, 2016b). If China's TRQs had been fully utilized, the US argues that China would have imported an additional $3.5 billion worth of grain in 2015 alone (US, 2016a). Nearly 30 other countries have joined the cases as third parties, including other major grain exporters.

China's stance: developing country means developing country

Despite growing pressure, China has intensely opposed efforts to discipline its subsidies at the WTO. China objects to even being called a 'large subsidizer' or classified with countries like the US. Its negotiators stress that China remains a developing country – albeit an upper-middle income one – with a GDP per capita of just $8000, compared to $57,000 for the US.[8] Chinese officials emphasize that average farm size is far smaller in China and, on a per capita basis, the levels of support it provides are considerably lower than the US or other advanced-industrialized states. China therefore insists, as one of its negotiators stated, that 'you cannot just ask China, because it is a big economy, to make the same cuts [to its subsidies] as others'.[9]

China justifies its subsidies on the grounds of its own national development goals, including promoting food security and rural development. Nearly half of China's population remains rural, with a third of the population employed in agriculture.[10] Poverty is concentrated in rural areas, and the income gap between urban and rural households is among the largest in the world (Frazier, 2013). Since the early 2000s, one of China's central policy objectives has been to raise the incomes of its large rural population and reduce growing income disparities between rural and urban areas. The Communist Party views urban-rural inequality as potentially destabilizing and a threat to its grip on power. Consequently, as one former Chinese negotiator indicated, 'Agriculture is a very difficult and very political issue for China. To simply ask China to stop providing domestic support [to agriculture] is political suicide. In China, the priority of agriculture is indisputable, no one can challenge it.'[11]

China's subsidies are also driven by the desire to secure domestic supply. It has set the goal of achieving 95% self-sufficiency in wheat and rice, which are seen as strategic commodities. China's emphasis on ensuring food security through self-sufficiency is shaped by its recent historical experience of hunger and famine, along with concerns about the possibility of future conflict with the US. As a former Chinese negotiator explained:

> The top agricultural exporters – where are they from? The US and EU – they control a big part of world production and exports. Imagine if we have a change in the political situation, like a new cold war, or a real war, where could China buy its food? Food security is not just about whether there is an international market but where your food is coming from and whether you will always be able buy the food you need.[12]

China's food reserves are part of a larger 'grand reserve system' directed at crisis prevention through self-insuring, which is seen as necessary for national defense, economic security and social stability (Chin, 2010).

Price support and general input subsidies have been the main instruments used in China, because these policies yield quick returns and are relatively easy to operate, as opposed to less trade-distorting direct support, which is less effective in boosting food production (ICTSD, 2015). Critics argue, however, that if its objective is to support its farmers, China has other, more effective policy options at its disposal, which would have less harmful effects on global markets and producers in other countries. There are also better ways to address rural poverty and support rural development, including through providing improved rural pensions, healthcare, education and infrastructure (OECD, 2017). But China has vigorously defended its agricultural subsidies at the WTO, maintaining that it is providing 'necessary and essential support' to its rural sector (Inside U.S. Trade, 2017a). Indeed, China argues that it is simply claiming the right to support its agricultural sector, as the US and other advanced-industrialized states have long done.

The soaring costs of its stockpiles have prompted China to undertake some reforms of its farm programs – such as moving from government purchases to other forms of support for some commodities – but its new programs remain production and trade distorting (Hejazi & Marchant, 2017). China's reforms have been driven by domestic considerations, rather than external forces or concerns about the effects of its policies on global markets or foreign producers. And they have not in any way altered China's negotiating stance or willingness to accept disciplines from the WTO. As one negotiator stated, 'China is going to reform when they are ready, regardless of what is going on at the WTO'.[13] China wants to maximize its policy flexibility, including maintaining the option to increase its subsidies in the future – which is why China has fiercely resisted *any* new disciplines on its agricultural support at the WTO.

China, like many developing countries, views the WTO's existing subsidy rules – established in the Uruguay Round Agreement on Agriculture (AoA) and heavily shaped by the US and EU – as unbalanced. Subsidies ('domestic support') are classified into different 'boxes' based on the degree to which they distort production and trade: the 'Amber Box' is for trade-distorting subsidies, such as measures related to production level or selling price; the 'Blue Box' encompasses direct payments to farmers made under production-limiting programs; 'Green Box' support is that with no, or minimal, distortive effects on trade; and Article 6.2 (the 'Development Box') provides an exemption allowing developing countries to provide certain investment and input subsidies for development purposes. The AoA established limits solely on the trade-distorting, or Amber Box, support that states can provide. For countries with high levels of support at that time, their Amber Box support was capped and subject to reductions (typically by 20%); the resulting new limit is referred to as a country's bound 'Aggregate Measure of Support' (AMS). *De minimis* provisions allow minimal levels of Amber Box support (5% of the value of production for developed countries and 10% for developing countries) to be exempt from the calculation of current AMS. The US, for example, was given a bound AMS (of $19.1 billion), plus allowed to exempt *de minimis* levels of support from the calculation of its current AMS. In contrast, most developing countries, which had little or no domestic support at that time, were not given a bound AMS. Consequently, for those countries, including China, its *de minimis* threshold acts as an effective limit on domestic support. In sum, while developed countries were given AMS entitlements plus *di minimis* exemptions, most developing countries were limited to *di minimis*. Developing countries have long criticized these rules as unfair, allowing developed countries that historically provided large amounts of trade-distorting support the flexibility to continue doing so (Clapp, 2006).

From China's perspective, these iniquities were compounded by the terms of its WTO accession. China has no AMS entitlement, its *de minimis* commitments (8.5%) are lower than other developing countries (10%), and it is not entitled to the Article 6.2 exemptions afforded to other developing countries. As one negotiator noted, 'China paid heavily in its accession and doesn't want to again'.[14] Another elaborated: 'Even if you look at agriculture alone, they gave up too much to enter the organization – AMS, Article 6.2, *di minimis*. From their perspective, other members should come to their level before they make further reforms'.[15] In short, for China:

> Its position is that 'we were promised in our accession negotiations that the Doha Round would be concluded with the US taking major cuts to AMS'. That was the implicit deal and how it was sold to stakeholders and even some in the Chinese bureaucracy. Their lack of flexibility is a function of this. They feel cheated. For them, it's a question of fairness.[16]

China thus maintains that it should not have to accept any further disciplines on its subsidies because its existing commitments already exceed those of other developing country members. Instead, it argues, the responsibility lies on the US and other developed countries to do more in reducing their subsidies, to live up to the promises made to China during its accession and developing countries more broadly in the Doha Round.

Post-Doha negotiations on agriculture subsidies

Agricultural subsidies have re-emerged as a central and highly contentious issue in WTO negotiations, but the terms of the debate have shifted significantly. Since the collapse of the Doha Round, the WTO has focused on negotiating targeted agreements on specific trade issues, leading to the successful conclusion of agreements on trade facilitation and agricultural export competition, for example, in 2013 and 2015 (Margulis, 2018; Wilkinson, Hannah, & Scott, 2014). Since 2015, there has been a push to negotiate a standalone agreement on domestic support for agriculture. However, these efforts have run aground due to a US-China standoff. The US has refused to cut its subsidies unless China does the same, but China has refused, insisting that as a developing country, it should not be forced to cut its subsidies. China maintains that any negotiations on domestic support should be based on the final draft agriculture text that emerged from the Doha Round in 2008 (known as 'Rev4'), immediately prior to the round's collapse. China is unwilling to accept more onerous commitments than those outlined in Rev4, which did not require any cuts to its domestic support – and the US refuses to accept Rev4 as the basis for negotiations for precisely that reason.

Rev4 introduced a new measure of support – Overall Trade Distorting Support (OTDS), which includes AMS, *de minimis* and blue box support – and used tiered cuts to OTDS and AMS, with the countries that provided the largest amounts of support in the past undertaking the greatest reductions. The US and EU would cut OTDS by 70% and 80% respectively.[17] Under Rev4, the US's bound OTDS would decline from $48.5 billion to $14.5 billion and its bound AMS of $19.1 billion would drop to $7.6 billion (Orden, 2013). Rev4 also introduced product-specific caps on Amber and Blue Box support.

For most developed countries, their current WTO subsidy limits are so high that the new disciplines introduced in Rev4 would just be cutting 'water' (the gap between their actual and bound subsidy levels). At the time of negotiating those terms in 2008, the US's actual OTDS was less than $7 billion and thus far below its proposed cap. Since then, however, its OTDS has been rising, due to a combination of lower global prices and new domestic support policies introduced in the 2014 farm bill (Anderson, 2017). Now, the US is distinctly vulnerable to the proposed caps under Rev 4, which would likely bite into its actual levels of domestic support. Under the terms of Rev4, as a US negotiator summed up: 'everyone else is OK, but it's the US that got trapped'.[18]

In contrast, Rev4 represented a highly favorable deal for China. Since 2005, in the Hong Kong Ministerial Declaration, it had been agreed that 'developing country members with no AMS commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support'.[19] This was reaffirmed in Rev4, which stated that developing countries without AMS entitlements (like China) would not be required to undertake reduction commitments in their OTDS.[20] China maintains that any negotiations on domestic support must be based on these previously agreed principles. They reflect a key promise of the Doha Round: that developing countries would be granted 'special and differential treatment' (SDT), including reduced liberalization commitments and greater flexibilities and exemptions. China considers itself a developing country and staunchly maintains that it is entitled to the SDT promised to developing countries. Its negotiators insist that the principles of SDT 'should be fully preserved and for all members' and identifies this as a 'redline' on which it is unwilling to budge (WTO, 2015). China argues that, as a developing country, it is entitled to SDT and should not be required to make further concessions. From China's perspective, the US is trying to renege on the terms of the deal that had been broadly agreed in 2008.

The US, however, argues that China needs to agree to undertake cuts as part of any multilateral deal on domestic support. The US has urged the WTO to 'step away from rigid notions of who is a developing country and what are their responsibilities' based on 'an antiquated snapshot of the past'.[21] According to the US Trade Representative, 'when major emerging economies are providing trade-distortive agricultural subsidies at a greater volume than all of the developed countries put together, we can no longer turn a blind eye'.[22] Referencing the grain subsidy dispute, in which the US asserts that China is providing nearly $100 billion per year in trade-distorting subsidies above its WTO limits, he argued: 'Think about that for a minute. $100 billion is more than the GDP of 130 countries. How can we have a serious conversation about distortions to global agricultural trade if we pretend that trade-distortive subsidies at this level don't exist?'[23]

The US agriculture industry is intensely frustrated that China, as one representative put it, 'still wants to claim developing country status for agriculture and get the benefits'.[24] Another explained their resistance to Rev4 as follows: 'We were being sacrificed. The US was giving everything and getting nothing in return – that's just not going to fly'.[25] According to a US congressional official, with Rev4: 'our industry gets thrown under the bus, while China gets a completely free pass. It's pretty hard to swallow. … Especially since China impacts the market more than us'.[26] The US argues that the world has changed significantly and any agreement on domestic support needs to reflect that new reality: as one negotiator put it, 'we need to look at this in the context of today's data and negotiate from there'.[27] For the US, any agreement on domestic support where it is forced to make significant cuts without concessions from China is a non-starter.

While the US led the charge against China's agriculture subsidies, it has been joined by others, including the EU, Australia, Canada, Brazil and other exporters. According to one negotiator:

> Most developed countries don't think Rev4 is an acceptable starting point now. Our analysis shows that it would mean real cuts into US domestic support while China would be doing nothing. As much as we'd love to see the US reduce its subsidies, that's just not realistic. And Rev4 doesn't meet our needs anymore because China wouldn't be doing anything. … Rev4 really reflects an outdated way of thinking about domestic support. To us, all trade-distorting forms of support are problematic, regardless of which country is providing them.[28]

The problem with Rev4, as one Secretariat official stated, is that it 'targets those who have been reducing their support and leaves off the hook those who are increasing their subsidies'.[29] As a negotiator noted:

> There's no way that's going to happen. It's just the political reality in the US. They can't be made to undergo reforms and tell their Congress and constituencies that China is carved out. And it's also systemically problematic, if just as the WTO is starting to discipline US and EU subsidies, they are simply replaced by other big subsidizers.[30]

Other WTO members have sought to break the US-China deadlock, advancing proposals targeting subsidies provided by both developed and emerging economies. New Zealand led a group of exporters in putting forward a proposal to move beyond the developed/developing country distinction by targeting a new category of 'major members'.[31] Various exporters, including the EU, Brazil and others, have pushed for an overall limit on trade-distorting domestic support.[32] There have also been calls for product-specific caps, including for cotton. But China has refused to budge, insisting that it will not accept any disciplines on its domestic support.

China's position is supported by other emerging subsidizers. In July 2017, China put forward a joint submission with India calling for the total elimination of existing AMS allowances for developed countries as a prerequisite for any further reforms (such that their *de minimis* limit would become a *de facto* ceiling, as is currently the case for most developing countries), while allowing developing countries to maintain their current *de minimis* flexibilities, without any new ceilings or cuts (Bridges Weekly, 2017a). The proposal was supported by several emerging economies, including Indonesia, Philippines and Turkey (Inside U.S. Trade, 2017b). In effect, China has now moved beyond its insistence on Rev4 as the only acceptable starting point for negotiations, but to an even more extreme position – where the US and other developed countries would be required to do substantially more than Rev4, while China and other emerging economies would still do nothing to reduce their subsidies. Furthermore, the problem is that because agricultural production has grown dramatically in China, so too has its *de minimis* limit (since it is calculated as a percentage of the total value of production). With its current total value of agricultural production at $1.4 trillion (OECD, 2017), China's current aggregate *de minimis* limit would permit it to spend up to an enormous $119 billion on trade-distorting subsidies – and China's cap will continue to grow with the value of agricultural production.

Negotiators report that China has assumed an 'extremely defensive' stance, 'digging in its heels' and refusing to discuss any reductions or disciplines on its domestic support: China is 'unwilling to accept *any* caps or make *any* commitments at the WTO'.[33] There is little to induce China to participate in a new WTO subsidies agreement. As one negotiator observed:

> China has no incentive to agree to a cap on domestic support. They don't care about reducing other countries' domestic support, so there's no trade off in it for them. They rail about US domestic support, but I don't think they really mind. They import US food and feed, and the fact those products are subsidized means they are cheaper. Ultimately, China has nothing to gain from an agreement on domestic support.[34]

And the US is equally obstinate – refusing to consider any solution that does not include a contribution from China.

While China is not the only emerging economy that is increasing its agricultural subsidies, it has been the chief target of the US and US-China conflict has dominated the negotiations. In the words of one Secretariat official: 'the dynamic is primarily between the US and China. The US is overwhelmingly focused on attacking China, and frankly it's not talking much about India or the others'.[35] Another seconded this: 'The real political friction is between the US and China. Clearly, the US-China relationship is absolutely crucial. We have a standoff where the Chinese say we're not going to reduce our domestic support, or even talk about it, unless you reduce your subsidies – US, you go first'.[36] Although India has played a prominent role on the issue of food stockholding (Wilkinson et al. 2014), which involves securing an exemption from existing subsidy rules, the conflict over creating new domestic support disciplines has been primarily a fight between the US and China. This is partly for economic reasons. For the US, China is a far more important agricultural export market than India: US agricultural exports to China are nearly

20 times the size of its exports to India.[37] The Indian market also remains protected primarily via high tariffs and other non-tariff barriers rather than subsidies (USDA, 2016b). But the US focus on China is also a product of their larger economic and geopolitical rivalry. As one negotiator summarized, the impasse between the US and China on subsidies is:

> partly related to the role of their defensive positions in agriculture but it is also about China-US competition in a broader sense. The US looks at things through the prism of what China would do [under any potential new rules] and China looks at it in exactly the same way with regards to the US. The politics goes beyond their pure interests in agriculture.[38]

Another negotiator echoed this in stating: 'A big part of this is political – how heavily China weighs in the US. The political optics of a situation where the US gives up something and China doesn't is unfeasible. Regardless of the commercial considerations, this is the underlying political reality'.[39] This fundamental conflict between the US and China has barred any progress on disciplining agricultural domestic support.

Addressing domestic support is 'a priority for virtually all delegations' (WTO, 2017a), but the negotiations have become blocked by the standoff between the US and China. To quote one negotiator, 'these are not small countries that you can just roll over'.[40] With the renewal of negotiations on domestic support, many states hoped for an outcome at the 2015 Nairobi Ministerial, but the stalemate between the US and China resulted in the issue being taken off the agenda for the Ministerial. According to the agriculture negotiations chair, there was 'near universal' consensus on the importance of reaching an agreement on subsidies at the 2017 Buenos Aires Ministerial, yet nothing was achieved (Bridges Weekly, 2017b). Despite the best efforts of many states, negotiators describe the prospects of agreement on domestic support as 'if not zero, then very close to zero' and report that 'there has been no movement and there are not signs that there will be movement any time soon'.[41] Indeed, with the two most powerful states at the WTO dug in, as a Secretariat official put it, 'we don't have anything even remotely resembling a negotiation'.[42]

The perspective of developing countries

With the post-Doha negotiations on agricultural subsidies dominated by conflict between the US and China, developing countries – for whom disciplining and reducing agricultural subsidies remains of crucial importance – have been largely sidelined. At the WTO, China continues to present itself as a victim of rich country subsidies, but elides the role of its own subsidies in victimizing other developing countries. China justifies its subsidies as necessary for its development, while ignoring the harmful effects of its policies on poorer, weaker countries. China's argument, as one negotiator put it, is that its subsidies are 'morally different' because it is a developing country.[43] As a WTO official summarized, 'the debate has become my subsidies are better than your subsidies'.[44] China maintains that its subsidies support rural development and poverty alleviation, while the US argues that its subsidies are more responsible because they are less trade-distorting. Yet while China and the US argue back and forth about 'who's support is more virtuous', another added, 'the reality is that the impact on other developing countries is the same regardless of where the money is coming from'.[45] A developing country negotiator echoed this: 'from the perspective of international markets or poor farmers in Africa, it doesn't matter where it's coming from – China or the US or another developed country – the impact is the same'.[46]

While China's agriculture policies are informed by important domestic considerations, they have major spillover effects for producers in other countries. China's subsidies distort production and trade, displacing imports from the Chinese market and depressing world prices. Given the volume of subsidies China is providing, its impact on global markets is significant. China may still be a developing country, but as a negotiator stated, 'You have to appreciate the fact that you are so big and so powerful that your policies have a huge impact on everyone else everywhere in the world'.[47] For smaller developing countries and LDCs, as a former African negotiator stated, 'We don't care who is doing the subsidizing. All countries – regardless of whether they are developed or not – if they are providing subsidies that are impacting us, they should be disciplined'.[48]

As a Secretariat official bluntly stated, many states 'detest what both sides – China and the US – are doing'.[49] Reducing trade-distorting subsidies would have a significant impact on the livelihoods and welfare of poor farmers around the world. It is estimated that removing agricultural subsidies would generate nearly $16 billion in added annual global welfare (Greenville, 2017) and removing all agricultural trade distortions could reduce the number of extreme poor by 3% (World Bank and WTO, 2015). Yet despite its importance to developing countries, the US-China impasse has blocked efforts at the WTO to reform global agricultural subsidies. Caught in a battle between these two major powers, as one developing country negotiator summed up, 'ultimately it's the little guys that get hurt the most'.[50]

Don't poke the dragon

While developing countries are harmed by agricultural subsidies and the US-China impasse, many are hesitant to challenge China. As a Secretariat official stated: 'African countries, LDCs – even though these are small countries, they have this moral weight because they are poorer than China. So if they start to say 'your subsidies are bad for us' that would be very damaging and dangerous for China'.[51] China, however, is 'extremely defensive. They often don't even like the facts available being discussed'.[52] An advisor to several developing countries summarized the situation as follows:

> They're not stupid – of course they realize these subsidies could be harmful to them. But it's very political. They are very careful, very circumspect about directly criticizing China and the other larger developing countries for political reasons. They don't want to be seen as criticizing the emerging powers.[53]

Many developing countries report that it is more difficult to criticize China and other emerging powers than it is to criticize the US or EU.[54]

Developing world solidarity remains a powerful force at the WTO, and developing countries worry that criticizing China's trade policies could alienate their most powerful ally against the US and other advanced-industrialized states. As an African negotiator stated, 'a lot of sensitivities remain around showing solidarity'.[55] Many developing countries now rely on China as their largest export market and fear that antagonizing China could jeopardize their access to its market. As one major emerging economy agricultural exporter indicated, 'Internally, we increasingly see our agriculture sector concerned about China's subsidies, but China is our biggest agriculture market now, so we have to be very careful'.[56] These fears are not limited to weaker states – even the US agriculture industry shares the same concerns.[57] In addition to their dependence on its market, China also exerts influence over weaker developing countries through foreign aid and investment. As one negotiator reported, during China's 2016 Trade Policy Review, the forum established specifically for criticizing a country's protectionist trade policies, 'the whole afternoon, just about every African country took the floor one after another to thank China for the thing it had built for them – roads, stadiums, airports. In all my time here, I have never seen anything like that before'.[58]

At the WTO, China appears to exert greater and more effective influence over developing countries than the US. As a former negotiator put it: 'The Americans are no good in their relations with LDCs. The Africans don't trust the Americans, they don't like them, but they accept that they behave like gorillas'. In contrast to the more overt, chest-thumping displays of dominance weaker countries are accustomed to from the US, he continued, China's exercise of power is more subtle: 'China does things quietly. If they want you to do something, they'll say quietly and subtly that you better do it or it will affect our relationship. And you would know there would be consequences if you didn't'.[59]

Consequently, given China's 'big political influence', one developing country negotiator explained, 'developing countries are not going to point the finger and say, "you China – you're a bad guy, don't do that anymore"'.[60] While developing countries will not openly or directly criticize China, according to negotiators, 'they are starting to voice more oblique complaints – like "we're suffering from subsidized competition *in general*," without specifying where those subsidies are coming from. If you read between the lines, it's not difficult to see who they are really talking about'.[61] Similarly, developing countries 'won't single out China but instead will now talk about "big subsidizers" or "big producers"' and recently they 'have started saying "we want to look at trade-distorting support that has the greatest impact on the products we produce and trade" – without distinguishing between developed and developing country subsidies'.[62] Despite their economic interests at stake, developing countries thus face significant constraints in their ability to challenge China's agricultural subsidies or criticize its role in blocking new disciplines.

Squeezed between two giants: the cotton example

Cotton subsidies provide a striking illustration of the new politics of agricultural subsidies at the WTO, and how developing country interests have become caught in the middle of the US-China standoff. Cotton is among the most heavily supported agricultural commodities and was singled out as a priority area within the agriculture negotiations because of its importance to the Cotton-4 (C-4) group of West African cotton producers (Mali, Chad, Benin, Burkina Faso), as well as many other developing and least-developed countries in Africa and throughout the world. Cotton is one of the most important crops in sub-Saharan Africa, with some 15 million people directly dependent upon it (Meyer & Terazono, 2014). Some of the poorest countries in the region rely on it for as much as 40% of their export revenues (Singh, 2014). For these countries, cotton is their lifeblood, vital to employment and reducing poverty (Sneyd, 2016).

As J. P. Singh (2017: 135) argues, 'cotton is symbolic of the developing world's efforts to pry open developed world agricultural markets' and reap greater benefits from trade. African cotton producers are among the most competitive in the world, but the subsidies provided by more affluent countries leave them struggling to compete in global markets. Increasingly, however, the source of the problem lies not just with developed countries but China. China and the US are among the world's least efficient cotton producers, with their average costs of production four times higher than some African countries – but thanks to state subsidies and other distortionary trade policies, China and the US are the second and third largest cotton producers respectively (ICAC, 2016a). There is a pressing need for trade disciplines to ensure a fair international market for poor cotton-producing countries, with reducing global cotton subsidies 'crucial for millions of farmers who live on the poverty threshold' (IDEAS Centre, 2013).

The world cotton market now revolves around China, as the world's largest consumer, importer (until recent import restrictions), and stockholder of cotton by sizable margins, and the second largest producer (after India) (Quark, 2013). As the location of over half the world's textile production (USDA, 2015b), China is by far the most important market for cotton producers in Africa and around the world. In a sign of how quickly this reorientation of global trade has occurred, in 1999, Benin, a member of the C-4, had almost no trade with China on cotton, but by 2010, China was the destination for nearly half of Benin's exports (ICTSD, 2013). China's cotton policies therefore have profound global consequences. These effects are felt most keenly in the countries of West Africa, which are collectively the world's second largest cotton exporter (ICAC, 2016a).

Like its broader support for agriculture, China's cotton subsidies have expanded dramatically, and China became the world's largest cotton subsidizer in 2009. During 2011–13, government purchases at above-market prices led to a massive accumulation of reserves, doubling the size of world cotton stocks. To draw down its stocks, China suspended government purchases of cotton in 2014–15, replacing this with direct payments to producers (ICAC, 2016b). But even after these reforms, Chinese cotton subsidies were estimated at $5.3 billion in 2015–16 (compared to $1.1 billion for the US) (ICAC, 2016b). China accounts for nearly three-quarters of the $7.2 billion in cotton subsidies provided worldwide (Figure 5). In China, cotton subsidies constitute more than 40% of gross farm receipts, compared to less than 20% in the US (Greenville, 2017).

In addition to heavy subsidies, China supports cotton production by controlling imports, imposing tariffs of up to 40% on cotton imported outside its WTO-mandated TRQ commitment. Given the importance of the Chinese market and the high tariffs China imposes on cotton, if China were to allow cotton from LDCs to enter duty free, it would provide a significant boost to African cotton producers. However, while China has offered Duty-Free Quota-Free (DFQF) access to LDCs, it excluded many of their most important exports, including cotton (ICTSD, 2013). When LDCs requested at the WTO that China expand DFQF access to cover cotton, China refused. In fact, since 2014, with the objective of reducing government stocks, China has sharply restricted imports – to near the level of its WTO TRQ

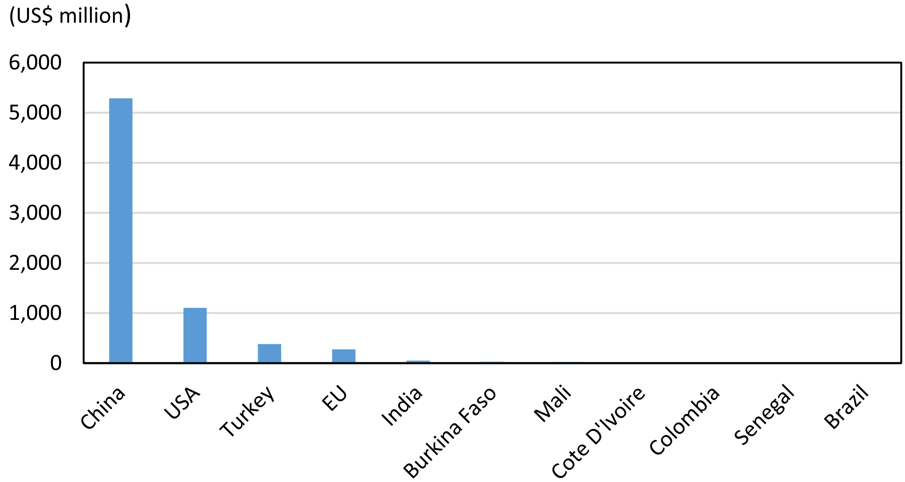

Figure 5. Global cotton subsidizers.
Data: ICAC (2016).
Note: Subsidies provided by some countries are too small to be visible.

obligation of about 1 million tones (compared to import levels as much as 6 times higher in the past) (ICAC, 2016a, 2016b).

With its extraordinary market power and massive cotton stocks, China effectively dictates the market for global cotton prices, leaving farmers in rich and poor countries alike at the mercy of Chinese government policy (Imboden, 2014; Meyer & Terazono, 2014). This is evident in the effects of China's cotton reserves, which as one exporter summarized, led to 'a meteoric rise and subsequent crash in global cotton prices'.[63] China's growing cotton stockpile initially contributed to increasing world prices, but then when China started selling off its reserves, its imports were drastically curtailed and global prices plummeted (Anderson, 2017). The global fallout from this drop in prices has hit poor countries the hardest (Sneyd, 2016). In Zambia, for instance, the national farmers union leader reports that there has been a steep fall in incomes, causing serious pain in a sector that employs 21% of the population and making life 'increasingly difficult' for farmers (Meyer and Terazono, 2014). Lower prices are expected to continue until China runs down its enormous stockpile. As one negotiator stated, China's cotton stocks are 'the cloud hanging over the market keeping prices down – and everyone's fear is that they will actually export'.[64]

China's strategy of using heavy subsidization and import barriers to support its cotton farmers causes significant harm to farmers elsewhere. As Adam Sneyd (2016: 41) puts it, China has 'exported pain' by transferring hardship to poorer and weaker countries. Although China's per capita GDP ($8000) is indeed small compared to that of the US, it vastly exceeds that of the C-4 countries (between $650 and $800).[65] China has considerable resources available to address poverty and rural development, as well as a broad array of alternative policy mechanisms it could use to achieve these objectives without the harmful spillover effects of trade-distorting agricultural subsidies.

The importance of the US in global cotton markets – and hence its subsidies – has diminished; today, world cotton prices are set more by China's trade policies than those of the US (IDEAS Centre, 2013). This is not to let the US off the hook. To be clear, US cotton policies remain part of the problem, but as the volume of its subsidies and its market share have declined, the impact of its subsidies on global markets is now dwarfed by that of China. On cotton, to quote one negotiator: 'It's no longer the US that's most important. Now it's China. Cotton production is declining in the US, but in China it's been growing – along with their subsidies'.[66] Consequently, according to Nicolas Imboden (2014) of the IDEAS Center, an NGO that has been the chief advocate for the C-4 at the WTO: 'any solution to the cotton issue will have to include China'. As a long-term advocate for developing countries on the cotton issue argued: 'At this point, it's no longer possible to just go after the US – you have to put China into the same basket because there is no question they have a major impact on global cotton prices and the exports of the C-4. Clearly both China *and* the US have to do something'.[67]

However, WTO negotiations on cotton have become blocked by the standoff between the US and China. US cotton subsidies, production and market share have all fallen since the late-1990s, particularly since its reforms following the Brazil cotton dispute (UNCTAD, 2016). Yet, from the US's perspective, having reformed its own cotton programs, it now finds itself the victim of China's subsidies. As a US congressional official stated:

> Our producers are incredibly frustrated and upset. On cotton, our biggest competitor is China and look at what they're doing – their subsidies are huge and they've wreaked havoc on the market with their policies. We went through this tortured process to reform our cotton programs … and now China is giving support we haven't since the '80s. We eliminated our programs and now the consequences of what China is doing are bearing down on markets, with prices collapsing, and our guys don't have the programs to support them. It makes folks furious. Anything that demands more of us in isolation, that puts our producers at a disadvantage, it's just not fair. With all that China's doing, we'd just be handing over the market to them.[68]

The US thus refuses to further reduce its cotton subsidies if China's are not similarly disciplined.

However, for China, its cotton subsidies are considered untouchable, a matter of national security as well as agricultural policy. The autonomous region of Xinjiang – a restive area in the northwest home to China's Muslim Uighur minority, whose separatist movement has been violently suppressed – accounts for more than half of China's cotton production. There most cotton is grown by the Xinjiang Production and Construction Corps, a quasi-military agricultural conglomerate consisting of Han Chinese settlers (Hornby, 2015). As one former Chinese official stated:

> Cotton in China is extremely political. Most cotton is produced in Xinjiang, where there is lots of regional and political instability – like Tibet. And that is where China is devoting lots of resources to supporting producers. Otherwise they will want to separate. So when others try to say you can't support your cotton producers, no way. It's like asking the US to stop supporting the rust belt – or its cotton producers, for that matter.[69]

China has therefore thwarted efforts to discipline its cotton subsidies at the WTO.

China is now a significant part of the cotton problem, but it has sought to evade any responsibility in WTO cotton negotiations. One negotiator characterized its strategy as, 'we're the elephant, but we just have to make our self as little and as invisible as possible'.[70] China continues to insist that all blame for the cotton problem lies solely with the US and maintain that as a developing country it is on the same side as the African countries and LDCs in fighting the US. As another negotiator stated, 'China keeps insisting 'cotton is not our issue'. They are trying to keep out of it – and they manage to because others are not putting them on the spot'.[71] As in the domestic support negotiations more broadly, the C-4 and other cotton-producing developing countries are extremely reluctant to complain about China's policies: as one of their advisors explained, 'They're afraid of China. They hate the Americans and Europeans but they're not afraid of them. They feel dependent on China [as the biggest cotton market]. And of course China is also giving lots of money to these countries'.[72] China is providing substantial sums of aid, investment and credit across the developing world. Plus, following in the footsteps of the US, China is now attempting to evade pressures to reform its cotton policies by providing aid to cotton-producing countries in Africa – as one negotiator bluntly summarized, 'that's what happens – give them money to make them shut up'.[73] The value of this aid, however, is only a small fraction of the potential gains that could be reaped by poor countries from the elimination of cotton subsidies.

Given their cost-competitiveness, the removal of global cotton subsidies would lead to a significant shift in production to African countries and increased trade volumes sourced from the region (Greenville, 2017). But, as with the broader negotiations on domestic support, efforts to negotiate new disciplines on cotton have become mired in finger-pointing between the US and China. As one negotiator from an African cotton-producing LDC summarized:

> The US says 'China, you tell us you only subsidize poor farmers, but if you look in aggregate, you see how important they are in distorting the market'. Then the argument from China is 'we're not exporting, you the US are exporting, so you are more dangerous for the C-4 and LDCs than me'. China points at the US like it is guilty and the US in return points to China as guilty. It's like ping pong. 'You're responsible.' 'No, not me, you're responsible.' But, in the end, both have the same impact on us [the C-4 and LDCs] and nothing is being done.[74]

Another negotiator similarly observed:

> Cotton acreage in the US is declining. Increasingly the US has said we can negotiate this issue if China's policies are on the table as well. But that's politically impossible for China. So the poor C-4 countries are just getting squeezed between the two giants. China has dug in its heels, the US has dug in its heels, and there's been virtually no progress on cotton.[75]

Meanwhile, however, he continued, 'the real market dynamics, beyond the games people play at WTO, really matter for the lives of people on the ground – they have real consequences'. While both the US and China present themselves as victims of the other's agricultural subsidies, arguably the chief victims in this battle are the world's poorest and most vulnerable developing countries. With the system's two dominant powers at loggerheads, each blaming the other for the cotton problem, efforts to discipline cotton subsidies via the WTO have come to a standstill.

Conclusion

As this analysis has shown, while agricultural subsidies remain a highly contentious issue at the WTO, the dynamics of the negotiations have changed dramatically as a result of contemporary power shifts. The traditional conception of the agricultural subsidies issue – articulated through a North-South lens with the US and other developed countries as perpetrators and developing countries as victims – has been turned on its head by China's emergence as the world's largest subsidizer. From a North-South struggle, the primary axis of conflict at the WTO has shifted to a battle between the US and China, heavily shaped by the hegemonic rivalry between the two states. An intractable conflict between the US and China has thwarted any progress on the establishment of a new and strengthened set of disciplines on agricultural subsidies, with negative consequences for much of the developing world.

If, as many have argued, agricultural subsidies are a critical test of the legitimacy of the multilateral trading system and its ability to work for weaker states, this analysis underscores its failure. Developing countries remain at the mercy of the major powers. Amid a clash between the US and China, developing countries and their interests have been sidelined. The US and other advanced-industrialized states were once viewed as the chief barrier to making the trading system work for developing countries. However, what the case of agricultural subsidies shows is that it is no longer just the US or other rich countries that are barring important changes to global trade rules that would benefit developing countries but also China. China has become a major part of the problem: together with the US, it is now blocking pro-development reform of the trading system at the WTO.

Notes

1. Interview, Washington, July 2015.
2. Interview, Geneva, July 2016.
3. Interview, Geneva, July 2016.
4. Interview, Washington, July 2015.
5. US Grains Council, "Focus on Competitiveness," Press Release, Feb. 22, 2012.
6. House Agriculture Committee Hearing, Washington, June 3, 2015.
7. US Wheat Associates, China Trade Enforcement Fact Sheet, 2016.
8. World Bank data, 2017.
9. Interview, Geneva, July 2017.
10. FAO and World Bank data.
11. Interview, Geneva, July 2017.
12. Interview, Geneva, July 2016.
13. Interview, Geneva, July 2016.
14. Interview, Geneva, July 2016.
15. Interview, Geneva, July 2016.
16. Interview, Geneva, July 2016.
17. TN/AG/W/4/Rev.4.
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19. WT/MIN(05)/Dec.
20. TN/AG/W/4/Rev.4.
21. Speech by USTR Michael Froman, Geneva, October 17, 2016.
22. *Ibid.*
23. *Ibid.*
24. Interview, Washington, July 2015.
25. Interview, Washington, July 2015.
26. Interview, Washington, July 2015.
27. Interview, Washington, July 2015.
28. Interview, Geneva, July 2016.
29. Interview, Geneva, July 2016.
30. Interview, Geneva, July 2016.
31. JOB/AG/100.
32. JOB/AG/99; JOB/AG/100; TN/AG/GEN/42.

33. Interviews, Geneva, July 2016 and 2017.
34. Interview, Geneva, July 2017.
35. Interview, Geneva, July 2016.
36. Interview, Geneva, July 2016.
37. USDA data.
38. Interview, Geneva, July 2016.
39. Interview, Geneva, July 2016.
40. Interview, Geneva, July 2016.
41. Interviews, Geneva, July 2017.
42. Interview, Geneva, July 2016.
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54. Interview, Geneva, July 2016.
55. Interview, Geneva, July 2017.
56. Interview, Geneva, July 2016.
57. Interviews, Washington, July 2015.
58. Interview, Geneva, July 2016.
59. Interview, Geneva, July 2017.
60. Interview, Geneva, July 2016.
61. Interview, Geneva, July 2016.
62. Interview, Geneva, July 2016.
63. Interview, Geneva, July 2016.
64. Interview, Geneva, July 2017.
65. World Bank data.
66. Interview, Geneva, July 2017.
67. Interview, Geneva, July 2017.
68. Interview, Washington, July 2015.
69. Interview, Geneva, July 2016.
70. Interview, Geneva, July 2017.
71. Interview, Geneva, July 2017.
72. Interview, Geneva, July 2017.
73. Interview, Geneva, July 2017.
74. Interview, Geneva, July 2017.
75. Interview, Geneva, July 2016.

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